

Message Text

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ORIGIN L-03

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NSC-05 SS-15 STR-04 CEA-01 INRE-00 NSCE-00 SSO-00

FEAE-00 ERDA-05 SEC-01 /101 R

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TO AMEMBASSY THE HAGUE IMMEDIATE

INFO AMEMBASSY ALGIERS PRIORITY

C O N F I D E N T I A L STATE 167918

E.O. 11652: GDS

TAGS: EINV, ENRG, AG, UK, US

SUBJECT: PROPOSED SONATRACH TAKING OF CONCH SHARES IN CAMEL

REFS: (A) STATE 81210; (B) STATE 155154

1. SUMMARY: SONATRACH, THE ALGERIAN STATE-OWNED ENERGY AGENCY, HAS OFFERED TO BUY OUT THE FOREIGN SHAREHOLDERS OF THE COMPAGNE ALGERIENNE DU METHANE LIQUIDE (CAMEL), WHICH SHAREHOLDERS INCLUDE U.S. INVESTORS AS WELL AS ROYAL DUTCH SHELL. AS SONATRACH IS ONLY OFFERING NET BOOK VALUE, AND OTHER ISSUES ARISE OUT OF THE PROPOSED PURCHASE, THE USG HAS PRESENTED ITS VIEWS OF THE MATTER TO THE GOA VIA A DIPLOMATIC NOTE AND WISHES EMBASSY TO ADVISE GON THAT WE
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WOULD WELCOME GON MAKING AN APPROPRIATE APPROACH TO GOA.

END SUMMARY

2. U.S. INVESTOR (F.H. PRINCE & CO), IS OWNER OF UNION STOCKYARD AND TRANSIT CO. WHICH IN TURN OWNS A 20 INTEREST IN CONCH INTERNATIONAL METHANE LTD. WHICH IN TURN OWNS 40 OF CAMEL. CONTINENTAL OIL OWNS 40 OF CONCH, AS DOES ROYAL DUTCH SHELL. SONATRACH WISHES TO BUY OUT CONCH'S 40 INTEREST IN CAMEL, A SUCCESSFUL LIQUIFIED NATURAL GAS ENTERPRISE OF WHICH SONATRACH, SUCCESSOR TO VARIOUS FRENCH COMPANIES, OWNS 60PCT.BUY-OUT PROPOSAL DEVELOPED AFTER

CONCH REFUSED TO CONTRIBUTE 40 OF PLANNED \$900 MILLION ADDITIONAL INVESTMENT IN CAMEL. PROBLEM IS THAT SONATRACH PROPOSES TO PAY NET BOOK VALUE LESS ALLEGED TAX PENALTIES, OR ABOUT \$3 MILLION. CONCH, ON BASIS OF UPDATED NET ASSET VALUE/REPLACEMENT VALUE SEEKS \$39 MILLION. SONATRACH HAS STATED THAT CONCH SHARES IN CAMEL WILL BE NATIONALIZED FOR LESS THAN \$3 MILLION UNLESS BUY-OUT OFFER IS ACCEPTED. SONATRACH ALSO REFUSES TO ARBITRATE THE DISPUTE, WHILE CONCH CLAIMS THAT THE UNDERLYING CONTRACTS PROVIDE FOR ARBITRATION OF DISPUTE ARISING IN CONNECTION WITH THE CONTRACTS.

3. BECAUSE CONCH IS INCORPORATED IN THE BAHAMAS, COMPLICATIONS UNDER INTERNATIONAL LAW WOULD ARISE SHOULD THE USG ENDEAVOR TO FORMALLY ESPOUSE THE CLAIM OF CONCH. HOWEVER, NO SUCH PROBLEMS ARE POSED BY USG REPRESENTATIONS WHICH DO NOT CONSTITUTE AN ESPOUSAL BUT ARE MERELY A REQUEST TO THE GOA TO ENSURE THAT SONATRACH HONORS ITS CONTRACTUAL AND INTERNATIONAL LAW OBLIGATIONS. THE PAYMENT OF NET BOOK VALUE IS GENERALLY CONSIDERED TO FALL BELOW THE STANDARDS ESTABLISHED BY INTERNATIONAL LAW. (IN THIS REGARD SEE MOST RECENT STATEMENT OF USG POLICY CONTAINED IN REF A.) THE USG HAS THEREFORE DELIVERED A FORMAL DIPLOMATIC NOTE TO THE GOA SETTING FORTH ITS VIEWS ON THE RELEVANT ISSUES. (TEXT OF U.S. NOTE CONTAINED IN REF B, WHICH IS BEING REPEATED TO YOU.)

4. ACTION REQUESTED: PLEASE CONTACT APPROPRIATE GON OFFICIALS AND ADVISE: THAT WE UNDERSTAND SHELL IS CONFIDENTIAL

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REQUESTING THAT GON APPROACH ALGERIAN GOVERNMENT ON ISSUE OF COMPENSATION FOR SHELL-OWNED SHARES OF CONCH; THAT USG HAS SENT NOTE TO GOA AND THAT WE WOULD WELCOME THE GON ALSO MAKING AN APPROPRIATE APPROACH TO GOA. EMBASSY MAY MAKE AVAILABLE TO GON ON A CONFIDENTIAL BASIS THE TEXT OF OUR NOTE FOR THIER INFORMATION SHOULD THEY WISH TO TAKE OUR NOTE INTO CONSIDERATION IN FORMULATING DUTCH APPROACH TO GOA. WE UNDERSTAND THAT GOA MAY TAKE

UP U.S. NOTE DURING WEEK OF JULY 5. EMBASSY SHOULD
THEREFORE MAKE DEMARCHE AT EARLIEST POSSIBLE TIME.
AMEMBASSY ALGIERS ADVISES THAT DUTCH EMBASSY ALGIERS
IS AWARE OF CONCH DISPUTE BUT HAS NOT AS YET RECEIVED
INSTRUCTIONS FROM GON ON ISSUE. KISSINGER

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